IMPACT OF MICROFINANCE ON SUSTAINABLE RURAL LIVELIHOOD: AN ANALYTICAL STUDY

A
SYNOPSIS

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1. INTRODUCTION

The global poverty crisis and resulting human suffering, environmental degradation, civil unrest and many other societal ills, are hastening the search for saleable anti-poverty approaches. These deplorable conditions are the source of the growing interest in microcredit and, more broadly, microfinance. The term "Microfinance" pertains to the lending of extremely small amount of capital to poor entrepreneurs in order to create a mechanism to alleviate poverty by providing the poor and destitute with resources that are available to the wealthy, albeit at a smaller scale.

This particular form of lending has existed in the world for quite some time, though formalized by Mohammed Yunus in Bangladesh during the 1970's, in his efforts to combat poverty and provide resources to the poor via the Grameen Bank and the microfinance model. The commercialization of microfinance is a means to an end, and that end is the reduction and ultimate lamination of extreme poverty from the face of the earth.

Microfinance refers to a variety of financial services that target low-income clients, particularly women. Since the clients of microfinance institutions (MFIs) have lower income and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances. Microloans are given for a variety of purposes, frequently for microenterprise development. The diversity of products and services offered by microfinance reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty.

The literal meaning of microfinance - *A type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. Ultimately, the goal of microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance*. Microfinance, according to Otero (1999) is "the provision of financial services to low-income poor and very poor self-employed people". These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as

insurance and payment services. Schreiner and Colombet (2001) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks." Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

1.1 INDIAN MICROFINANCE SECTOR

Microfinance has the potential to become an important component of a successful and sustainable poverty alleviation program. India's share in this global microcredit market is quite impressive. Indian microfinance sector is expected to grow nearly ten times by 2011, to a size of about Rs.250 billion from the current market size of Rs. 27 billion, at a compounded annual growth rate of 76%. Microfinance in India started evolving in the early 1980s with the formation of informal Self Help Group (SHG) for providing access to financial services to the needy people who are deprived of credit facilities. National Bank for Agriculture and Rural Development (NABARD), the regulator for microfinance sector, and Small Industries Development Bank of India (SIDBI) are devoting their financial resources and time towards the development of microfinance. Microfinance has enormous growth potential as half the world's population earns less than US$2 per day, which is insufficient to meet their basic needs.

Since 2000, commercial banks including Regional Rural Banks have been providing funds to MFIs for on-lending to poor clients. Though initially only a handful of NGOs were 'into' financial intermediation, using a variety of delivery methods, their numbers have increased considerably today. By the end of March 2009, microfinance institutions expanded their outreach to 50 million households and about 38 million borrowers. These institutions are organized under three models: SHG, Grameen model/Joint liability groups and Individual banking groups as in cooperatives. As of March 2009, both SHG bank linkage and MFIs have collectively disbursed US$3.9 billion to the poor (NABARD). While there is no published data on private MFIs operating in the country, the number of MFIs is estimated to be around 800 and about a dozen have an outreach of 100,000 microfinance clients.

1.2 SUSTAINABLE RURAL LIVELIHOOD

There are 1.4 billion people in the world living in extreme poverty and about 70 percent of them live in rural areas. The term "sustainable livelihood" reflects the shift towards a more people-centered approach to development following the 1987 Brundtland Commission Report and the first UNDP *Human Development Report* in 1990. The concept of sustainable livelihood was developed further by research institutions including the Institute of Development Studies of the University of Sussex and the Overseas Development Institute in the United Kingdom; NGOs such as CARE and Oxfam; and development organizations including DFID and UNDP.

A livelihood approach is a way of thinking about the objectives, scope and priorities for development. It focuses on the multiple resources, skills and activities that people draw upon to sustain their physical, economic, spiritual and social needs. Ultimately, it is an attempt to redefine development in terms of what human beings need and in terms of what they can contribute to one other's well-being.

The concept of **Sustainable Livelihood (SL**) is an attempt to go beyond the conventional definitions and approaches to poverty eradication. These had been found to be too narrow because they focused only on certain aspects or manifestations of poverty, such as low income, or did not consider other vital aspects of poverty such as vulnerability and social exclusion. It is now recognized that more attention must be paid to the various factors and processes which either constrain or enhance poor people's ability to make a living in an economically, ecologically, and socially sustainable manner.

In 1992, Robert Chambers and Gordon Conway proposed the following composite definition of a sustainable rural livelihood, which is applied most commonly at the household level, as "*A livelihood comprises the capabilities, assets (stores, resources, claims and access) and activities required for a means of living; a livelihood is sustainable which can cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, and provide sustainable livelihood opportunities for the next generation; and which contributes net benefits to other livelihoods at the local and global levels and in the short and long term."*

The Sustainable rural livelihood framework views livelihood as system and provides a way to understand:

- The assets people draw upon.
- The strategies they develop to make a living.
- The context within which a livelihood is developed.
- And those factors that make a livelihood more or less vulnerable to shocks and stresses.

The SL approach is one way in which developmental activities could be thought of, the eventual goal being to reduce or eradicate poverty (Ashley & Carney 1999; DFID 1999; Koziell 2001). The developmental activities are deliberately focused on the people and how they lead their lives (DFID 1999).The SL approach is mindful of diversity of livelihoods; and perspectives and causes of poverty (Koziell 2001). The following figure presents the sustainable livelihood frame work (Figure 1).

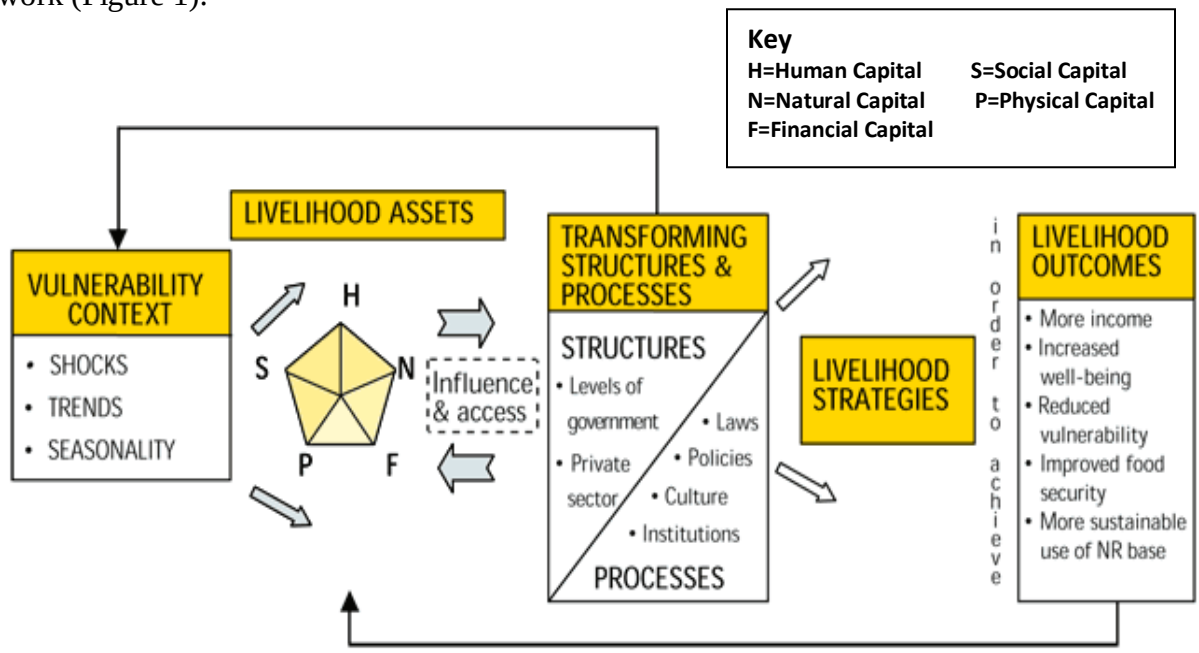

Figure 1: Sustainable Livelihood Frame Work

[Source: Department for International Development (2001)]

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The Sustainable Livelihood approach involves:

- **Vulnerability context:** The poor people are generally living in the vulnerable situations within the turnover of trade and global trend, shock from the social and cultural network as well as unstable market prices and finally depleting from the natural resources. The representation of the vulnerability context as "all-embracing" for the poor, but mediated by the interplay of the other elements in their livelihoods, emphasizes the responsibility of development interventions to help the poor to cope with vulnerability factors.

- **Livelihood assets:** The poorest households combine a variety of resources to which they have access in different ways to continue their livelihoods and these resources are called livelihood assets (Hossain *et al*., 2010). There are five livelihood assets, as identified by DFID (2001), belongs to smooth sustainable life; such as (i) Human capital (ii) Physical capital (iii) Financial capital (iv) Social capital (v) Natural capital.

Human capital	Skills, knowledge, health and ability to work
Social capital	Social resources; including informal networks, membership of formalized groups and relationships of trust that facilitate co-operation and economic opportunities
Natural capital	Natural resources such as land, soil, water, forests and fisheries
Physical capital	Basic infrastructure; such as roads, water & sanitation, schools, ICT and producer goods; including tools, livestock and equipment
Financial capital	Financial resources including savings, credit, and income from employment, trade and remittances

- **Transforming structure and processes:** The framework are on the various external factors that affect on the poor access of the different forms of assets as well as get feedback with the exchange of these assets . The existing structure and running process are directly enabling them to access, of both, assets and activities they need. The institutions that operate within a given context will be critical to sustainable livelihood outcomes. Livelihoods are formed within social, economic and political contexts.

- **Livelihood strategies**: The livelihood strategies is whatever the poor people are doing for surviving in the situations of shock from the social and cultural network as well as unstable market prices and finally depleting from the natural resources (Hossain *et al*., 2010). On the other hand, the livelihood strategies are the way of poor efforts to move out themselves from the vulnerable context through existing structures and running process by use of their existing assets and financial access in the income generating activities (Allison & Ellis, 2001; Tschakert *et al*., 2007).
- **Livelihood outcomes:** The livelihood outcomes are what poor households actually achieved by applying their livelihood strategies. The outcomes of livelihood would be sustainable if the people able to ensure secure recovery from external stress and shocks and maintain or enhance its capabilities and assets.
- **Livelihood Interdependence:** A given livelihood may rely on other livelihoods to access and exchange assets. Traders rely on farmers to produce goods, processors to prepare them, and consumers to buy them. Livelihoods also compete with each other for access to assets and markets.

1.3 MICRO FINANCE AND SUSTAINABLE LIVELIHOOD

Microfinance programs globally considered as one of the most significant tool to fight against poverty. Wide range of researches avowed that microfinance is a successful mechanism to reach the Base of the Pyramid; it is effective tool those who are more vulnerable to many of the socio-economic, political, cultural, and environmental shocks and risks. In the process of sustainable development "Reaching the poor and being financially sustainable" has now become the goal of microfinance program. Therefore, building the livelihood of poor people through microfinance program must be in a more sustainable manner.

2. REVIEW OF LITERATURE

The review of related literature has been categorized as follows:

2.1 STUDIES RELATED TO MICROFINANCE

Montgomery et al. (1996) stated that in India Microfinance plays a very significant role in alleviate poverty and increasing their wellbeing. **Puhazhendhi, & Satyasai (2000)** acknowledged in her study of rural India that "average net increment in income per household was 33% higher during the post-SHG period. Income inequality was reduced and the propensity to save among group members was enhanced during the post-SHG period. The involvement of the members in the group activities significantly contributed to boosting their self-confidence and improving their communication skills." **Copestake et al. (2001)** analyzed the impacts of microfinance on firms and individual wellbeing. Copestake focuses on business performance and household income to establish a link between the availability of microfinance and overall wellbeing of the poor. **Park (2001)** evaluated the actual microfinance programs in China using 3 key measures (targeting, sustainability and overall impact). In contrast **Amin et al. (2003)** focused their article on the ability of microfinance to reach the poor and vulnerable. They focused their article in such a manner because of concerns that microfinance is only serving people slightly above or below the poverty line, however the really poor and destitute are being systematically excluded.

Littlefield et al. (2003) stated that "microfinance is a critical contextual factor with strong impact on the achievements of the MDGs. Microfinance is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale". **Brandsma & Burjorjee (2004)** identified that microfinance plays three key roles in development and they are: it helps very poor households meet basic needs and protects against risks; it is associated with improvements in household economic welfare; it helps to empower women by supporting women's economic participation and so promotes gender. **Littlefield and Rosenberg (2004)** discovered that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. In developing country like India, microfinance played a vital role in the process of economic development.

Simanowitz and Brody (2004) concluded that microfinance also plays a vital role in achieving the millennium development goals. **Simanowitz and Brody (2004)** explained that "Microfinance is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the poorest people." **Natu et al. (2008)** stated that coupling financial inclusion with social security schemes is a very effective tool for elimination of poverty. Microfinance plays a very significant role in poverty alleviation and for financial inclusion.

Rao et al. (2009) acknowledged that energy-microfinance intervention or a model encompasses two independent entities. One has an energy expertise and the other possesses finance management skills. This entity fosters different institutional, technical and financial engineering approaches to the provision of energy, finance and infrastructure services necessary for poverty alleviation. **Imai et al. (2010)** also discovered in their study that there is a significant positive effect of MFI productive loans on multidimensional welfare. **Kumar et al. (2010)** identified that the need of microfinance arises because the rural India requires sources of finance for poverty alleviation, procurement of agricultural and farms input. Micro finance is a program to support the poor rural people to pay its debt and maintain social and economic status in the villages. **Hermes Niels and Lensin Robert (2011)** discussed that the empirical contributions with respect to a number of related and highly relevant issues on the economics of microfinance. In particular, the contributions provide answers to the following two main questions: (1) Does microfinance have an impact on the social and economic situation of the poor in developing nations?; and (2) Are microfinance institutions sustainable in the long term and are there a trade-off between sustainability and outreach?

Bansal and Bansal (2012) concluded that poor households use microfinance to move from everyday survival to planning for the future. They invest in better nutrition, housing, health, and education. **Bhuiyan et al. (**2012**)** revealed in the study of Malaysia, that there is much contribution of microcredit towards the sustainable livelihood of the poor borrowers. The study also concluded that microfinance is providing the poor the accessibility for the credit to increase their total family through different livelihood strategies of Income Generating Activities (IGAs) and thus, sufficient income provides a hope to the poor to ensure achievement of sustainable livelihood by improving good health, access of children's education, achieving skill, acquiring

assets, taking part in social activities. **Mohanty Sungeeta et al. (2013)** discussed that the concept of micro finance gained growing recognition as an effective tool in improving the quality of life and living standards of poor people. The particular paper focused on micro finance institutions and their role in promoting the rural poor of India. **Salim (2013)** tested the model using comprehensive data from Bangladesh. Structurally estimating profit and impact function and suggested that pure profit maximization cannot explain the branch placement pattern for Grameen Bank or BRAC: they both deviate towards poverty alleviation. **Howson (2013)** highlighted the relevance of adverse incorporation as a neglected theoretical approach to debate on microfinance through a case study of cross-border traders in Senegal. Although women's organizations do not exclude even the poorest women, traders in remote areas were unable to access credit due to particularly harsh standards of joint liability and adverse relations with donors, lenders, and elite women.

2.2 STUDIES RELATED TO SUSTAINABLE LIVELIHOOD APPROACH

In the 1970s, microfinance has evolved in astounding ways, incorporating into its practice social and economic development concepts, as well as principles that underlie financial and commercial markets. This combination has led to the creation of a growing number of sustainable microfinance institutions around the developing world. **Otero (1999), Zeller & Meyer (2002)** introduced the concept of the triangle of microfinance, not only as the organizing framework for the volume but also as the analytical core of the microfinance challenge. This lies in (1) reaching the poor in substantial numbers, (2) enabling them to move out of poverty, and (3) creating financial institutions that are sustainable. **GTZ (2006)** demonstrated that construction of the environment for financial services in general, and microfinance in particular, in the field of policy cannot afford to ignore any stakeholder organizations' ineffectiveness. **Tulchin (2006)** observed that the microfinance is a valuable tool for the alleviation of poverty around the globe. In order to microfinance to realize its full potential, it must be sustainable and capable of expansion beyond the limitations imposed by a reliance on development assistance.

Bhuiyan et al. (2012) interlinked microfinance and sustainable livelihoods and also described about conceptual linkages of microcredit towards a sustainable livelihood framework. **Kauffman**

& Riggins (2012) concluded that Information and Communication technology (ICT) is an important driver in the maturing microfinance industry and for balancing the dual goals of microfinance that are outreach and sustainability. **Salim (2013)** interlinked the outreach and sustainability of microfinance. Microfinance is the policy of government of India in order to defeat with poverty. It is a tool to include the financially poor people in the development process by providing them financial help and banking services. Poor people face various risks and vulnerabilities which makes them even more vulnerable such as loss of crop, death of loved one, sickness or illness, natural calamities and so on. To crack the problems of poor people, the microfinance is an important instrument. Microfinance provides them financial help in the form of micro loan.

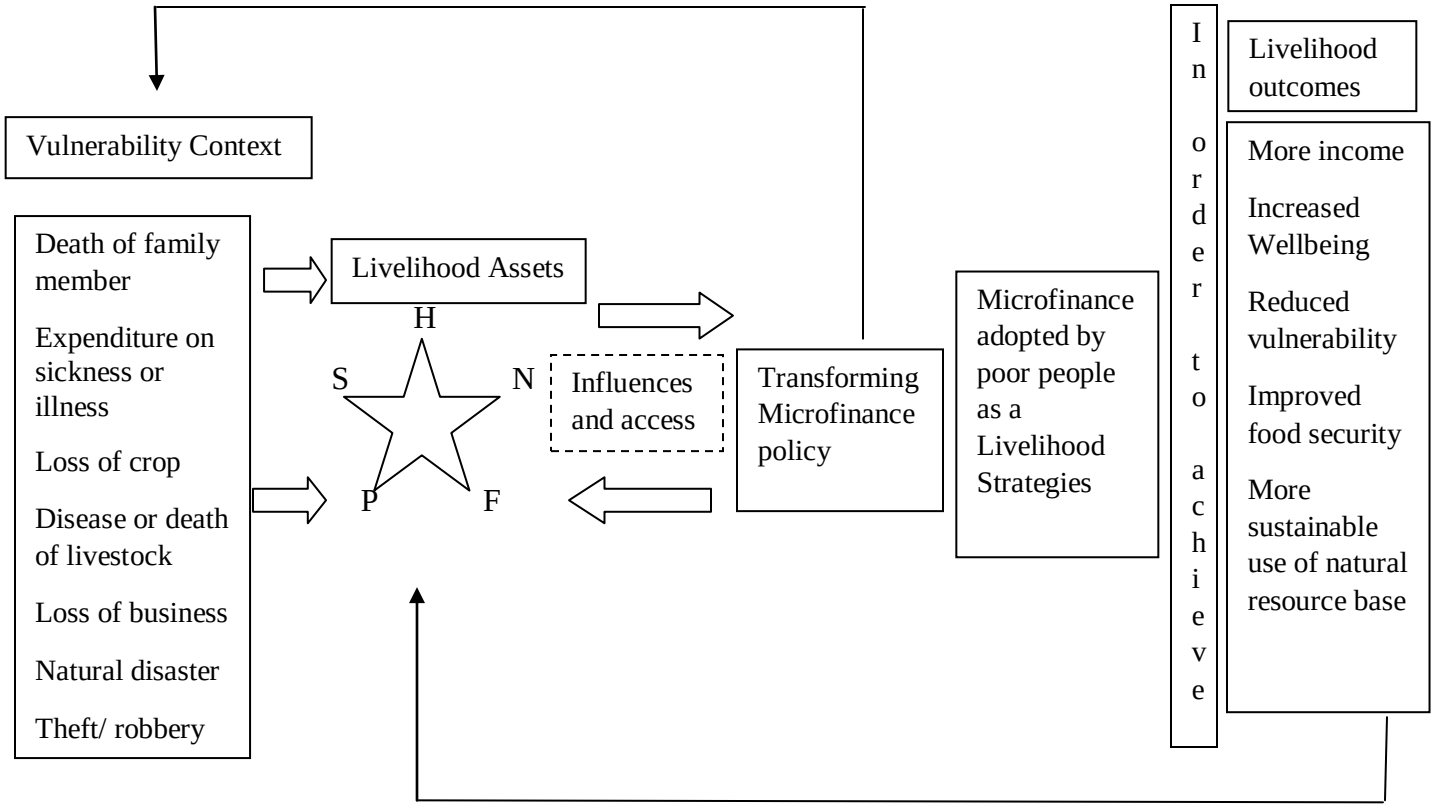
3. NEED OF THE STUDY

Micro finance directly affects the livelihood of poor people and their wellbeing by providing them financial help in form of small loan. There may not be a quantum jump in income but it is still possible to ensure a reasonable rise in the income of the poor. A livelihood comprises of the capabilities, assets (including both material and social resources) and activities required for the means of living. In the process of sustainable development, the concept of sustainable livelihood emerged as an important tool for the sustainable development of any economy. "A livelihood is sustainable when it can cope with and recover from stress and shocks and maintain or enhance its capabilities and assets both now and in the future, while not under mining the natural resource base". (Chambers & Conway, 1991)

In this context, microfinance program is generally perceived as one of the practical and attractive means for providing accessibility of the poor to credit and hence reducing poverty and achieving sustainable livelihood. So, therefore it becomes very significant to study how microfinance and sustainable development link together for the sustainable rural livelihood of the borrowers. Thus, the aim of this study is to draw out the linkages between microfinance and sustainable rural livelihood in Agra District. After reviewing the related literature, the researcher aims to study the impact of micro finance on livelihood of rural poor households in terms of institutional, financial and economic factors using various sustainability measurement indicators.

The present research work will be beneficial for bank officials, prospective entrepreneurs/MFIs and government policy makers in framing future policies/programs/projects for the sustainable rural development in Agra district of Uttar Pradesh in India.

The analytical framework of the proposed model as shown in Figure.2 will be used by researcher for examining the impact of microfinance on sustainable rural livelihood.



Key: H- Human assets N- Natural capital F- Financial assets P- Physical assets S-Social assets

Figure 2: Analytical Framework of the proposed model

4. OBJECTIVES

The study will be based on following objectives-

- To analyze the present scenario of microfinance in India.
- To study the concept of sustainable livelihood approach for analyzing the microfinance.
- To study the impact of microfinance on various parameters of sustainable rural livelihood such as human capital, natural capital, financial capital, physical capital, social capital.
- To suggest an action plan for effective implementation of the microfinance policy to achieve the livelihood outcomes.

5. HYPOTHESIS

To make study more scientific, the following null hypothesis has been formulated-

H_0^1: There is no significant impact of microfinance on human capital.

H_0^2: There is no significant impact of microfinance on natural capital.

H_0^3: There is no significant impact of microfinance on financial capital.

H_0^4: There is no significant impact of microfinance on physical capital.

H_0^5: There is no significant impact of microfinance on social capital.

6. RESEARCH METHODOLOGY

The study attempts to analyze the long term impact of microfinance policy in the alleviation of poverty by using sustainable livelihood approach through primary survey. The entire assessment of analyzing the impact of microfinance on sustainable rural livelihood is essentially based on primary as well as secondary data. The impact will be measured through focused group discussions, field observations and analyzing relative change in the status of poor.

VARIABLES: The variables for the study are categorized as follows:

INDEPENDENT VARIABLE: Microfinance

DEPENDENT VARIABLES: Human capital, Natural capital, Financial capital, Physical capital, Social capital.

6.1 STUDY AREA

According to 2011-12 poverty estimates (Tendulkar Methodology), the state Uttar Pradesh is poorest among other states of India (Annexure I). The Agra district of Uttar Pradesh has been considered as study area for present research work. The Agra district comprises of 6 tehsils. The tehsils are Etmadpur, Agra, Kiraoli, Kheragarh, Fatehabad and Bah. The district consists of 15 blocks, namely, Etmadpur, Khandauli, Shamshabad, Fatehabad, Jagner, Kheragarh, Saiyan, Achanera, Akola, Bichpuri, Fatehpur Sikri, Barauli Ahir, Bah, Pinahat and Jaitpur Kalan. Location map of the study area is depicted below:

AGRA DISTRICT

6.2 SAMPLING DESIGN

- **Sampling Method:** Purposive sampling will be used for the present research work and only those respondents will be taken who are the stakeholders or beneficiaries of microfinance.
- **Size of Sample:** The total registered BPL households in Agra District are 71088. The Agra District is divided into fifteen blocks and from each block 0.5% of total BPL population will be selected as sample population, so the total numbers of sample BPL household families are 355, considered for present study (Annexure II).

6.3 SOURCES OF DATA

PRIMARY: The primary data will be collected to analyze the impact of microfinance on sustainable livelihood through structured questionnaire and interviews of microfinance beneficiaries.

SECONDARY: The secondary data will be collected to study the microfinance scenario and sustainable livelihood approach through annual reports, articles, internet, magazines, research papers, journals, and books etc.

6.4 STATISTICAL TOOLS: The appropriate descriptive and inferential statistical tools will be used for analyzing of data.

7. PROPOSED CHAPTERIZATION

Chapter I: Introduction

Chapter II: Review of Related Literature

Chapter III: Present Scenario of Microfinance in India

Chapter IV: Sustainable Rural Livelihood Approach for Analyzing Microfinance

Chapter V: Impact Assessment of Microfinance on Sustainable Rural Livelihood

Chapter VI: Sustainable Livelihood through Microfinance: An Action plan

Chapter VII: Conclusion and Recommendations

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ANNEXURE I

Number and Percentage of Population below Poverty Line by States - 2011-12 (Tendulkar Methodology)

S.No.	States	Rural		Urban		Total	
		% age of Persons	No. of Persons (lakhs)	% age of Persons	No. of Persons (lakhs)	% age of Persons	No. of Persons (lakhs)
1	Andhra Pradesh	10.96	61.80	5.81	16.98	9.20	78.78
2	Arunachal Pradesh	38.93	4.25	20.33	0.66	34.67	4.91
3	Assam	33.89	92.06	20.49	9.21	31.98	101.27
4	Bihar	34.06	320.40	31.23	37.75	33.74	358.15
5	Chhattisgarh	44.61	88.90	24.75	15.22	39.93	104.11
6	Delhi	12.92	0.50	9.84	16.46	9.91	16.96
7	Goa	6.81	0.37	4.09	0.38	5.09	0.75
8	Gujarat	21.54	75.35	10.14	26.88	16.63	102.23
9	Haryana	11.64	19.42	10.28	9.41	11.16	28.83
10	Himachal Pradesh	8.48	5.29	4.33	0.30	8.06	5.59
11	Jammu & Kashmir	11.54	10.73	7.20	2.53	10.35	13.27
12	Jharkhand	40.84	104.09	24.83	20.24	36.96	124.33
13	Karnataka	24.53	92.80	15.25	36.96	20.91	129.76
14	Kerala	9.14	15.48	4.97	8.46	7.05	23.95
15	Madhya Pradesh	35.74	190.95	21.00	43.10	31.65	234.06
16	Maharashtra	24.22	150.56	9.12	47.36	17.35	197.92
17	Manipur	38.80	7.45	32.59	2.78	36.89	10.22
18	Meghalaya	12.53	3.04	9.26	0.57	11.87	3.61
19	Mizoram	35.43	1.91	6.36	0.37	20.40	2.27
20	Nagaland	19.93	2.76	16.48	1.00	18.88	3.76
21	Odisha	35.69	126.14	17.29	12.39	32.59	138.53
22	Punjab	7.66	13.35	9.24	9.82	8.26	23.18
23	Rajasthan	16.05	84.19	10.69	18.73	14.71	102.92
24	Sikkim	9.85	0.45	3.66	0.06	8.19	0.51
25	Tamil Nadu	15.83	59.23	6.54	23.40	11.28	82.63
26	Tripura	16.53	4.49	7.42	0.75	14.05	5.24
27	Uttarakhand	11.62	8.25	10.48	3.35	11.26	11.60
28	**Uttar Pradesh**	**30.40**	**479.35**	**26.06**	**118.84**	**29.43**	**598.19***
29	West Bengal	22.52	141.14	14.66	43.83	19.98	184.98
30	Puducherry	17.06	0.69	6.30	0.55	9.69	1.24
31	Andaman & Nicobar Islands	1.57	0.04	0.00	0.00	1.00	0.04
32	Chandigarh	1.64	0.004	22.31	2.34	21.81	2.35
33	Dadra & Nagar Haveli	62.59	1.15	15.38	0.28	39.31	1.43
34	Daman & Diu	0.00	0.00	12.62	0.26	9.86	0.26
35	Lakshadweep	0.00	0.00	3.44	0.02	2.77	0.02
	All India	25.70	2166.58	13.70	531.25	21.92	2697.83

Source- Press Note on Poverty Estimates, 2011-12, Government of India Planning Commission July 2013

Notes: 1. Population as on 1st March 2012 has been used for estimating number of persons below poverty line. (2011 Census population extrapolated)
2. Poverty line of Tamil Nadu has been used for Andaman and Nicobar Island.
3. Urban Poverty Line of Punjab has been used for both rural and urban areas of Chandigarh.
4. Poverty Line of Maharashtra has been used for Dadra & Nagar Haveli.
5. Poverty line of Goa has been used for Daman & Diu.
6. Poverty Line of Kerala has been used for Lakshadweep.

ANNEXURE II.

Blocks of Agra District	**No. of BPL families**	**0.5%**
Fatehpursikri	6553	33
Achnera	6476	32
Akola	3699	19
Bichpuri	2267	12
Barauli Aheer	6817	34
Khandauli	5047	25
Etmadpur	4278	21
Jagner	2167	11
Kheragarh	3505	17
Saiyan	3665	18
Shamshabad	8225	41
Fatehabad	6699	33
Pinahut	3896	20
Bah	4286	21
Jaitpur Kalan	3508	18
Total	**71088**	**355**

Source- Agra Development Authority 2010-11

Note- From each block 0.5% of total no. of BPL families will be selected as sample BPL families